

Arizona State Retirement System Q & A on the Optional System Proposal

What Are the Issues?

- System members receive monthly pension benefits that, for the most part, are not guaranteed
- The number of System members continues to decrease
- System members are living longer
- System benefits are subject to the volatility of the investment market

As of 6/30/2005, 62.75% of the present System pension benefit is not guaranteed. System benefits are subject to volatility risk from investments and the continually reducing size of the group. The upside of investment risk is the accumulation of monies (Supplemental Credit or 13th check) in each member's account that has occurred due to careful management by the ASRS through the years. The downside is that the risks increase because System members are living longer yet there is an overall decrease in number of System members. The ASRS Board of Trustees must maintain a minimum funded status for the System of 95%. If the funded status falls below 95%, benefits are reduced to bring the funded status up to 95%. If there are reductions, the amount of reduction is unknown until the actuarial valuation is completed each year. Retired members and members whose primary income comes from this benefit may be unprepared for any reduction.

The ASRS authorized a review of the System by Mercer, an actuarial and benefits consulting firm, who presented to the Board of Trustees its finding at the Board's public meeting in July 2006. The findings of Mercer's presentation formed the basis for the ASRS System member outreach that is now being conducted.

What Is the Proposed Solution?

Provide an option in which a System member may choose to take a reduction in their benefit now in return for receiving a guaranteed benefit paid from the Plan for the rest of their life. Members who choose this option will eliminate the risk of potentially having their benefit reduced in the future. Below is a *Sample Conversion Percentages* chart that shows a range of ages and an estimate of what the amount of the System member's benefit would be if they choose to transfer to the Defined Benefit plan under this proposal.

If it is determined that members of the System want the ASRS to move forward with this proposal, legislation will need to be drafted and adopted by the legislature in the upcoming 2007 legislative session. After the effective date of the legislation (approximately late August or early September 2007), the ASRS will provide members with individualized estimates in approximately January 2008 in preparation for members to make their choice.

Who Is Eligible To Participate in this Voluntary Choice?

All active, inactive and retired System members and surviving beneficiaries of deceased members.

What Are the Sample Conversion Percentages?

Sample Conversion Percentages* (Based on the 6/30/2005 actuarial valuation report funded status of 107%)	
*The sample conversion percentages will change depending on the funded status of the System, which will vary with investment performance and other economic and demographic changes.	
Age	Percentage of System Benefit Guaranteed upon Transfer to the Plan
50	81.9%
55	83.8%
60	85.8%
65	87.3%
70	89.9%
75	92.6%
80	94.8%
85	97.5%

What Will My Cost Be for this Proposal?

The proposal offers each member a choice to make a *voluntary* transfer from the System to the Defined Benefit Plan by taking a reduction in their System benefit by an amount that reflects the risk the Defined Benefit Plan would absorb for accepting the liability to pay guaranteed lifetime benefits. The cost to each member will be based on their individual age, account benefit, System benefit and the funded status of the System on the date of transfer. The actual amount of the reduction will be determined by the actuary on a future date so amounts shown are estimates only.

What Are the Options Available to Retired System Members and Surviving Beneficiaries?

1. No Change. Continue receiving your System benefit with the understanding of the risks, including the potential for reductions to your benefit amount.
2. Accept a reduction in the current benefit amount (the benefit amount is your combined monthly benefit and 1/12 of any 13th check distribution you receive) to convert to a guaranteed Plan benefit with no risk of further reduction. Any increases to your benefit would come from the Plan.
3. Take a lump sum distribution and forfeit all rights of ASRS membership and benefits including eligibility for health insurance from the ASRS and the health

insurance premium benefit supplement. The lump sum is equal to the present value of the System annuity benefit and your 13th check, multiplied by the current funded status at the time of transfer.

What Are the Options Available to Active and Inactive Members Not Retiring Now?

1. No change. Remain in the System and retire under the System when eligible with the understanding of the risks including the potential for reductions to your benefit amount.
2. At retirement, you may choose the ASRS Defined Benefit plan with a guaranteed benefit that may be less than the estimated System benefit and may be less than the converted System benefit being offered in this proposal.
3. Take a refund of contributions from the System if eligible, and forfeit all rights of ASRS membership and benefits including eligibility for health insurance from the ASRS, the health insurance premium benefit supplement and ASRS long term disability coverage. A refund constitutes all member contributions, and employer contributions according to the following criteria:

Years of Service	Percent of Employer Contributions
0.0 – 4.99	0%
5.0 – 5.99	25%
6.0 – 6.99	40%
7.0 – 7.99	55%
8.0 – 8.99	70%
9.0 – 9.99	85%
10.0+	100%

4. Choose to transfer to the Plan during the election period and retire at a future date. Your System benefit will be converted to a Plan benefit based on your current age and your account will be transferred to the Plan. If you are still actively working, all new service will accrue under the Plan and the multiplier applied to your benefit will be based on your total service. You will be required to make contributions at the Defined Benefit rate, currently 9.1%. This will be matched by your employer. When you retire, your benefit will consist of your converted System benefit plus the new amount accrued under the Plan.
5. Take a lump sum distribution from the System, if eligible. (Lump sum is equal to System account balance multiplied by current funded status as of date of transfer.)

What Will Happen to My Account If I Choose to Stay in the System?

Your account will remain as it is now and it will remain subject to the same risks with their resulting increases or decreases.

What Will Happen to Future Distributions of Excess Earnings as a result of this proposal?

In 2003, the ASRS adopted a rule addressing the issue of the distribution of excess earnings to the accounts of System members. The rule established provisions that if the funded status of the System falls below 95% the Board **must reduce** benefits to the

extent needed to bring the funded status up to 95%. Similarly, when the funded status of the System is more than 105%, the Board **may authorize** a distribution of the earnings to active members as Supplemental Credits and to retired members as a 13th check. This rule will still govern the distribution of excess earnings for System members.

How Do I Provide Feedback on the Proposal?

Enclosed with this packet is a *Feedback Form*. The ASRS wants to know your thoughts on the proposal and is asking you to complete the enclosed form and return it to us by Nov. 3, 2006. If feedback tells us that System members are comfortable with the risks and do not support the ASRS proposal, then there will be no further action on the part of the ASRS on this proposal. If the feedback is positive to pursue the Optional System Proposal, the ASRS will pursue legislation to allow System members the choice.

Presentations on the Proposal

Meetings have been scheduled around the state to share information with System members on this proposal. A schedule of the meeting dates, times and locations may be found in the cover memo. In many of the facilities, seating is limited and we are asking for you to RSVP.

If you are unable to attend a meeting and would like a copy of the presentation, or if you just have questions, you are welcome to contact us by phone or by email. Following is a list of ASRS staff that will be able to assist you with your questions. The presentation will also be available on our website, www.azasrs.gov, under the main category, "System Members."

To send your questions by email: contactus@azasrs.gov. Please type "System Question" in the subject line.

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